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405UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING January 1, 2012 AND ENDING December 31, 2012  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Northland Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

45 South 7th Street, Suite 2000

(No. and Street)

Minneapolis

MN

55402

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Randy Nitzsche

612-851-5900

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Mayer Hoffman McCann P.C.

(Name - if individual, state last, first, middle name)

222 South 9th Street, Suite 1000

Minneapolis

MN

55402

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

## FOR OFFICIAL USE ONLY

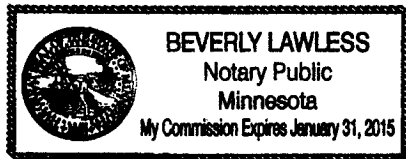
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Randy Nitzsche, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Northland Securities, Inc., as of December 31, 20 12, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_



Beverly Lawless  
Notary Public

Randy Nitzsche  
Signature  
CEO  
Title

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**NORTHLAND SECURITIES, INC.**

**FINANCIAL STATEMENTS  
PURSUANT TO RULE 17a-5 OF THE  
SECURITIES EXCHANGE ACT**

Years Ended December 31, 2012 and 2011

# **NORTHLAND SECURITIES, INC.**

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
Northland Securities, Inc.  
Minneapolis, Minnesota

We have audited the accompanying statements of financial condition of Northland Securities, Inc. as of December 31, 2012 and 2011, that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northland Securities, Inc. as of December 31, 2012 and 2011 in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

Minneapolis, Minnesota  
February 27, 2013

# STATEMENTS OF FINANCIAL CONDITION

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,544,468	\$ 4,623,480
Clearing deposit	250,000	250,000
Receivable from clearing organization	1,038,705	9,651,400
Securities inventory	11,311,994	8,314,498
Investment securities	546,277	1,280,647
Receivables	2,178,287	1,698,694
Property and equipment, at cost, less accumulated depreciation	1,662,439	1,496,472
Intangible assets, at cost, less accumulated amortization	1,522	23,076
Receivable from affiliates	195,982	537,748
Income taxes receivable	705,066	-
Deferred income taxes	200,025	533,273
Other assets	590,751	576,707
<b>TOTAL ASSETS</b>	<b><u>\$ 20,225,516</u></b>	<b><u>\$ 28,985,995</u></b>
<b><u>LIABILITIES</u></b>		
Accounts payable, trade	\$ 355,755	\$ 2,391,528
Capital lease liability	460,823	633,170
Accrued expenses	4,768,689	10,150,771
Deferred income taxes	616,300	355,000
Income taxes payable	-	12,526
Securities sold, not yet purchased	256,794	224,202
<b>TOTAL LIABILITIES</b>	<b><u>6,458,361</u></b>	<b><u>13,767,197</u></b>
<b><u>STOCKHOLDER'S EQUITY</u></b>		
<b>CAPITAL CONTRIBUTED</b>		
Common stock, par value \$.01, authorized 1,000,000 shares, issued and outstanding 102,000 shares	1,020	1,020
Additional paid-in capital	14,668,008	14,668,008
<b>TOTAL CAPITAL CONTRIBUTED</b>	<b><u>14,669,028</u></b>	<b><u>14,669,028</u></b>
<b>RETAINED EARNINGS (DEFICIT)</b>	<b><u>(901,873)</u></b>	<b><u>549,770</u></b>
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b><u>13,767,155</u></b>	<b><u>15,218,798</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u>\$ 20,225,516</u></b>	<b><u>\$ 28,985,995</u></b>

See Notes to Financial Statements

## NORTHLAND SECURITIES, INC.

### NOTES TO THE FINANCIAL STATEMENTS

( 1 ) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies**

**Nature of business** – Northland Securities, Inc. (the Company) is principally engaged in providing securities brokerage, investment banking, and related financial services to individuals, institutions, corporations and municipalities. The Company is a wholly owned subsidiary of Northland Capital Holdings, Inc. (Holdings). The Company shares its facilities and certain other operating expenses and personnel with other wholly owned subsidiaries of Holdings including Northland Trust Services, Inc. (Trust), Northland Networks, Inc. and subsidiary (Networks) and Northland Directions, Inc. (Directions). These affiliated companies provide various financial services including consulting, commercial lending, placement agent, and paying agent services to institutional investors, businesses and government agencies.

The Company primarily acts as an introducing broker and dealer of securities with customers in various parts of the United States; however, most customers are located in the upper Midwest area. It clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer, who carries all the customers' accounts and maintains the related records.

**Financial instruments with off-balance sheet risk:**

**Off-balance-sheet credit and market risk** – In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities, options and bond transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations. The Company clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer (clearing firm), who carries all the customer accounts and maintains the related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers.

The Company's customer securities activities are transacted on either a cash or margin basis. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines, requiring the customers to deposit additional collateral, or reduce positions, when necessary.

**Concentrations of credit risk** – As an introducing broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of corporations, governments, institutional and individual investors. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities and options transactions can be directly impacted by volatile trading markets which may impair the customer's ability to satisfy their obligations to the Company.

## NORTHLAND SECURITIES, INC.

### NOTES TO THE FINANCIAL STATEMENTS

(1) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (continued)**

**Cash and cash equivalents** – The Company considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Company's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Company periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Company has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

**Receivables and credit policies** – Accounts receivable for fees, reimbursable expenses, and other services are uncollateralized customer obligations due under normal trade terms requiring payment within 30 to 90 days from the invoice date depending on the service provided. Past due accounts receivable with invoice dates over the days allowed for collection are not charged interest.

Commissions receivable on trades processed by the clearing firm are accrued on a trade date basis. The commissions receivable are paid to the Company as requested.

Payments of accounts receivable from customers are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable may be reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days past due and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. At December 31, 2012 management considers all amounts collectible.

**Securities held** – Securities inventory, securities sold not yet purchased, and investment securities are valued using level 1 inputs based on unadjusted quoted market prices within active markets, level 2 inputs based primarily on quoted prices for similar assets or liabilities in active or inactive markets and level 3 inputs based on present value techniques using inputs derived principally or corroborated from market data. Values using level 3 inputs were primarily valued using management's assumption about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. Changes in the fair values are recognized currently as unrealized gains or losses and included in revenue from principal transactions.

**Investment securities** – Investments consist principally of equity securities (or equity equivalents in the case of warrants) in both private and publicly held companies. Equity securities are primarily obtained in addition to a cash fee from investment banking transactions. Equity positions in publicly held companies which are unrestricted (free to exercise in the case of warrants) are accounted for at fair value. Equity positions in publicly held companies which are restricted and not available to be exercised as of the financial statement date are accounted for at fair value and classified as restricted. Equity securities in privately held companies are classified as restricted investments and accounted for at cost.



# NORTHLAND SECURITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### (1) Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (continued)

When the fair value of an investment security is lower than cost, the Company evaluates the security to determine whether the impairment is considered to be "other-than-temporary". In making this determination, the Company considers among other factors the near and long term prospects of the security's issuer and the length of time the security has been in a loss position. If the impairment is considered other-than-temporary the charge is recorded in the statement of operations.

**Investment banking** – Underwriting revenues and fees from advisory assignments are recorded when the services have been performed and fees have been earned in accordance with the terms of the engagement.

In the normal course of investment banking activities, the Company may receive securities, stock or warrants of the company, for which services have been performed. The Company recognizes revenue based on the estimated fair value of the securities received. In addition, certain employees are entitled to receive a portion of the securities received as compensation. The subsequent value of both the securities held and accrued compensation are adjusted to fair value and the changes in value are included in the Statement of Operations in the respective captions of other income and compensation expense. During 2012, the Company recognized \$282,233 of noncash investment banking fees and \$82,188 of noncash compensation where securities were received.

**Security transactions** – Commission income and related expenses for security transactions are recognized on a trade date basis.

Firm trading securities held for resale including securities owned, and securities sold and not yet purchased, are measured at fair value and unrealized gains and losses are reflected in revenues from principal transactions.

**Property and equipment** – Property and equipment are recorded at cost. Expenditures for renewals and betterments are capitalized. Repairs and maintenance are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the results of operations.

**Intangible assets** – Customer based intangibles acquired are recorded at their estimated fair value and amortized over estimated lives of three to five years.

**Depreciation and amortization** – Depreciation and amortization are computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Computer software and equipment	3 to 5 years
Office furniture and fixtures	3 to 7 years
Leasehold improvements	the lesser of the lease term or 7 years

## NORTHLAND SECURITIES, INC.

### NOTES TO THE FINANCIAL STATEMENTS

( 1 ) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (continued)**

**Impairment of long-lived assets** – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were recorded for the years ended December 31, 2012 or 2011.

**Income taxes** – Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred taxes result principally from the difference in recognition of investment income for financial statement and tax reporting purposes.

The Company recognizes a liability for uncertain tax matters using a “more likely than not” threshold. Uncertain tax positions are identified and evaluated based on the likelihood that the position will be sustained after scrutiny by the applicable taxing authority.

When tax positions that do not meet the “more likely than not” threshold, a cumulative probability assessment is performed in the aggregate to determine the estimated tax liability for all uncertain tax positions. The Company’s policy is to recognize interest and penalties related to uncertain tax positions in the income tax provision. It is reasonably possible that the amount of unrecognized tax benefits will increase during the next 12 months; however any potential change is not expected to have a material effect on the results of operations or financial position of the Company.

**Use of estimates** – The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 1 ) Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (continued)**

**Recently issued pronouncements** – In May, 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (“IFRS”). The Company has adopted ASU 2011-04 effective January 1, 2012 and this adoption did not have a material impact on the Company’s financial statements.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to the Company.

**Subsequent events policy** – Subsequent events have been evaluated through February 27, 2013, which is the date the financial statements were issued.

**Commitments and contingencies** – In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company’s financial position, results of operations, or cash flows.

**( 2 ) Receivable from clearing organization**

Amounts receivable from the Company’s clearing firm consist of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Clearing deposits	\$ 250,000	\$ 250,000
Commissions receivable	1,039,000	9,651,000
	<u>\$ 1,289,000</u>	<u>\$ 9,901,000</u>

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 3 ) Securities inventory and securities sold, not yet purchased**

The following is a summary of the fair value of major categories of securities owned and securities sold, not yet purchased as of December 31, 2012 and 2011.

<b>December 31, 2012</b>	<b>Securities Available For Sale</b>	<b>Securities Sold, Not Yet Purchased</b>
Corporate equity securities	\$ 256,000	\$ 257,000
Municipal bonds	10,817,000	-
Corporate debt securities	239,000	-
Total	<u>\$ 11,312,000</u>	<u>\$ 257,000</u>

<b>December 31, 2011</b>	<b>Securities Available For Sale</b>	<b>Securities Sold, Not Yet Purchased</b>
Corporate equity securities	\$ 526,000	\$ -
Government securities	209,000	-
Municipal bonds	7,481,000	224,000
Corporate debt securities	98,000	-
Total	<u>\$ 8,314,000</u>	<u>\$ 224,000</u>

**( 4 ) Property and equipment**

The aggregate depreciation and amortization expense was \$523,000 and \$418,000 for the years ended December 31, 2012 or 2011, respectively. Depreciation of assets under capital lease arrangements is included with depreciation on owned assets.

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 4 ) Property and equipment (continued)**

The following is a summary of property and equipment:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Cost of owned property and equipment:		
Computer software and equipment	\$ 1,209,000	\$ 1,120,000
Furniture and fixtures	636,000	479,000
Leasehold improvements	251,000	222,000
	<u>2,096,000</u>	<u>1,821,000</u>
Less accumulated depreciation	931,000	982,000
Net owned property and equipment	<u>1,165,000</u>	<u>839,000</u>
Cost property and equipment under capital lease:		
Computer software and equipment	202,000	202,000
Leasehold improvements	894,000	894,000
	<u>1,096,000</u>	<u>1,096,000</u>
Less accumulated depreciation	599,000	439,000
Net property and equipment under capital lease	<u>497,000</u>	<u>657,000</u>
Total property and equipment	<u>\$ 1,662,000</u>	<u>\$ 1,496,000</u>

**( 5 ) Capital lease**

The Company had capital lease obligations as of December 31, 2012 and 2011 for the purchase of property and equipment.

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Capital lease (secured by related assets) expiring on January 31, 2016, payable in aggregate monthly installments of \$10,900, including interest of 0%.	\$ 403,000	\$ 534,000
Capital lease (secured by related asset) expiring on April 1, 2014, payable in aggregate monthly installments of approximately \$3,800, including interest of 4.6%.	58,000	99,000
Total capital leases	<u>\$ 461,000</u>	<u>\$ 633,000</u>

# NORTHLAND SECURITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### ( 5 ) Capital lease (continued)

Future minimum lease payments under the capital leases are as follows:

<u>Years ending December 31,</u>	<u>Amounts</u>
2013	\$ 176,000
2014	145,000
2015	131,000
2016	11,000
Total minimum lease payments	463,000
Less amount representing interest	2,000
Present value of net minimum lease paymen	<u>\$ 461,000</u>

### ( 6 ) Investment securities

Cost, fair value and aggregate unrealized gains and losses for investment securities at December 31, 2012 and 2011 are summarized below:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized</u>	
			<u>Gains</u>	<u>Losses</u>
<b>December 31, 2012</b>				
Equities - unrestricted	\$ 235,000	\$ 509,000	\$ -	\$ 274,000
Equities - restricted, public	145,000	215,000	-	70,000
Equities - restricted, private	166,000	209,000	-	43,000
Total	<u>\$ 546,000</u>	<u>\$ 933,000</u>	<u>\$ -</u>	<u>\$ 387,000</u>
<b>December 31, 2011</b>				
Equities - unrestricted	\$ 681,000	\$ 1,840,000	\$ -	\$ 1,159,000
Equities - restricted, public	434,000	502,000	-	68,000
Equities - restricted, private	166,000	209,000	-	43,000
Total	<u>\$ 1,281,000</u>	<u>\$ 2,551,000</u>	<u>\$ -</u>	<u>\$ 1,270,000</u>

## NORTHLAND SECURITIES, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (7) Fair value measurements

**Fair value measurement definition and hierarchy** – ASC Topic 820 establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Assets and liabilities with readily available quoted prices from an orderly market generally will have a higher degree of market price observability and require a lesser degree of judgment used in measuring fair value.

ASC Topic 820 establishes a three-level valuation hierarchy for inputs used in measuring fair value. The guidance requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's perspective on the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The hierarchy consists of three levels as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access at the measurement date (most observable). Valuation adjustments and block discounts are not applied to Level 1 measurements.

Level 2 – observable inputs other than quoted prices for identical assets included within Level 1 (i.e. price quotes for similar assets).

Level 3 – unobservable inputs for the asset or liability to be used in pricing models (i.e. Black-Scholes) or matrix pricing.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the investment is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 7 ) Fair value measurements (continued)**

Fair values of assets and liabilities measured on a recurring basis at December 31, 2012 and 2011 are as follows:

<b>December 31, 2012</b>	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Securities owned:				
Corporate equity securities	\$ 256,000	\$ 256,000	\$ -	\$ -
Municipal bonds	10,817,000	-	10,817,000	-
Corporate debt securities	239,000	-	239,000	-
Investment securities	380,000	-	-	380,000
Total assets	<u>\$ 11,692,000</u>	<u>\$ 256,000</u>	<u>\$ 11,056,000</u>	<u>\$ 380,000</u>

Securities sold, not yet purchased:

Corporate equity securities	257,000	257,000	-	-
Total liabilities	<u>\$ 257,000</u>	<u>\$ 257,000</u>	<u>\$ -</u>	<u>\$ -</u>

**December 31, 2011**

Securities owned:

Corporate equity securities	\$ 522,000	\$ 522,000	\$ -	\$ -
Government securities	209,000	-	209,000	-
Municipal bonds	7,481,000	-	7,481,000	-
Corporate debt securities	102,000	-	102,000	-
Investment securities	1,115,000	-	-	1,115,000
Total assets	<u>\$ 9,429,000</u>	<u>\$ 522,000</u>	<u>\$ 7,792,000</u>	<u>\$ 1,115,000</u>

Securities sold, not yet purchased:

Municipal bonds	224,000	-	224,000	-
Total liabilities	<u>\$ 224,000</u>	<u>\$ -</u>	<u>\$ 224,000</u>	<u>\$ -</u>



# NORTHLAND SECURITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### ( 7 ) Fair value measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 from those used in 2011.

Corporate equity securities – valued at the closing price reported in the active market the individual security is traded.

Government securities – valued at the closing price reported in the market the individual security is traded.

Municipal bonds and corporate debt securities – valued at the closing price reported in the market the individual or similar bond/security is traded. When quoted prices are not available for identical or similar bonds/securities, it is valued using a discounted cash flows approach that maximizes observable inputs, such as current yields of similar investments, but includes adjustments for certain risks that may not be observable, such as credit or liquidity risks.

The following table presents a reconciliation of assets and liabilities measured on a recurring basis, using significant unobservable inputs. There were realized losses of \$92,000 and zero for the years ended December 31, 2012 and 2011, respectively. There were \$387,000 and \$1,200,000 of unrealized losses for the years ended December 31, 2012 and 2011, respectively.

#### Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	December 31,	
	2012	2011
Beginning Balance	\$ 1,115,000	\$ 38,000
Total gains or losses (unrealized/realized)		
Included in earnings	(404,000)	(1,227,000)
Purchases	282,000	2,304,000
Settlements	(613,000)	-
Transfers in and/or out of Level 3	-	-
Ending balance	<u>\$ 380,000</u>	<u>\$ 1,115,000</u>
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at the reporting date	(387,000)	(1,227,000)
	<u>\$ (387,000)</u>	<u>\$ (1,227,000)</u>

# NORTHLAND SECURITIES, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### ( 7 ) Fair value measurements (continued)

The assets and liabilities measured using unobservable inputs are predominantly warrants of public corporations not traded on the open market received as revenue for investment banking services performed. The Company uses the Black-Scholes Option Pricing Model for valuation purposes, which uses a risk-free rate of return, volatility of the underlying security and the expected terms of the warrants as significant inputs, among other factors. An additional discount is taken on restricted investment securities until the restriction period expires. At December 31, 2012 the range of estimated warrant terms ranged from 2.44 to 4.63 years, risk free rates ranged from 0.36% to 0.72% and the volatility rate ranged from 50% to 133%. At December 31, 2011 the estimated ranges for warrant terms, risk free rate and volatility was 2 – 10 years, 0.36% - 1.88% and 50% - 118% respectively. Weighted averages are shown below.

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Estimated term	3.7	7.9
Risk-free interest rate	0.62	1.4
Volatility rate	99.4	71.1

### ( 8 ) Income tax expense

The components of the provision for federal and state income taxes are as follows:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Current income taxes		
Federal income taxes	\$ (68,000)	\$ 1,314,000
State and local income taxes	10,000	945,000
Total current income tax expense	<u>(58,000)</u>	<u>2,259,000</u>
Deferred income taxes		
Deferred tax asset	332,000	(234,000)
Deferred tax liability	260,000	(27,000)
Total deferred income tax (benefit) expense	<u>592,000</u>	<u>(261,000)</u>
Total income tax (benefit) expense	<u>\$ 534,000</u>	<u>\$ 1,998,000</u>
Deferred tax asset	\$ 200,000	\$ 533,000
Deferred tax liability	(616,000)	(355,000)
Net deferred taxes	<u>\$ (416,000)</u>	<u>\$ 178,000</u>

The Company files a consolidated tax return with Holdings, Networks, Directions and Trust. The tax expense or benefit is allocated to each of the companies based on each company's proportionate share of the total income of the group. Taxes currently payable are due to Holdings. The Company reimbursed Holdings \$650,000 and \$3,945,000 during the years ending December 31, 2012 and 2011 respectively, for its share of taxes payable.

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 8 ) Income tax expense (continued)**

Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes pursuant to accounting guidance.

The total amount of unrecognized tax benefits, if recognized, would affect the effective tax rate as of December 31, 2012 and 2011, respectively, are zero and \$16,000. Currently, the Company does not expect the liability for unrecognized tax benefits to change significantly in the next twelve months. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. As of December 31, 2012, there is no gross balance accrued related to the unrecognized tax benefits balance, interest and penalties.

Holdings files tax returns, including returns for its subsidiaries, in the United States (U.S.) federal jurisdiction and in various state jurisdictions. In addition, the Company files separate state tax returns in those jurisdictions where it is required to do so. Uncertain tax positions are related to tax years that remain subject to examination. U.S. tax returns for fiscal years ended December 31, 2009 through 2012 remain subject to examination by federal tax authorities. Tax returns for state and local jurisdictions for fiscal years ended December 31, 2008 through 2012 remain subject to examination by state and local tax authorities.

**( 9 ) Commitments**

The Company conducts its operations in leased facilities. The leases have varying terms expiring through February 2018. The lease agreements provide for monthly rental payments ranging between \$500 and \$42,000, plus a proportionate share of the building's operating expenses. Rent expensed under these arrangements was \$1,117,000 and \$990,000 for the years ended December 31, 2012 and 2011, respectively.

The Company is obligated under operating leases for office and computer equipment. The leases have varying terms expiring through January, 2014. Aggregate payments under these leases amount to \$11,000 per month. Rent expensed under these arrangements was \$69,000 and \$48,000 for the years ended December 31, 2012 and 2011, respectively.

Future minimum lease payments which must be made under non-cancellable lease agreements are:

<u>Years Ending December 31,</u>	<u>Amounts</u>
2013	\$ 967,000
2014	881,000
2015	740,000
2016	726,000
2017 and thereafter	730,000
Total minimum lease payments	<u>\$ 4,044,000</u>

Subsequent to year end, the Company exercised an option to extend its lease in the Radisson Plaza by twenty-five months through February 2018 at an average basic rent of approximately \$43,000 per month.

**NORTHLAND SECURITIES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**( 10 ) Customer transactions**

The Company does not hold customer funds or securities. Accordingly, the Company is exempt from the requirement to maintain a "Special Reserve Account for the Exclusive Benefit of Customers" under provisions of SEC Rule 15c3-3 based on Paragraph K(2)(ii) of that rule.

**( 11 ) Related party transaction**

Networks, Trust and Directions are affiliates of the Company through common ownership by Holdings. The Company received a management fee totaling \$63,000 and \$62,000 from Networks in years ending December 31, 2012 and 2011, respectively. In addition, the Company handles the payment of all salaries for the related companies. The affiliates reimburse the Company for the direct compensation and other direct costs as incurred.

The Company has the following receivables from its affiliates at year end:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Networks	\$ 97,000	\$ 163,000
Trust	20,000	21,000
Holdings	79,000	354,000
	<u>\$ 196,000</u>	<u>\$ 538,000</u>

The Company makes advances and loans to various employees during the year. The total amount due from employees at December 31, 2012 and 2011 was \$1,386,000 and \$1,273,000 respectively and is included in the statement of financial position under the caption "Receivables". Employee advances are reported net of management allowance for amounts estimated as either not collectible or forgivable based on the terms of the advance.

**( 12 ) Net capital requirements**

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c 3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15-to-1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2012, the Company had net capital and net capital requirements of \$7,518,000 and \$413,000, respectively. The Company's net capital ratio was 0.82 to 1.

NORTHLAND SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

( 13 ) Employee benefit plan

The Company has a contributory 401(k) plan (the Plan) that covers substantially all employees. Employees are eligible to participate in the Plan the first of the month following thirty days of employment. The Company has not provided a matching contribution through 2012.

( 14 ) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash received: interest	<u>\$ 610,000</u>	<u>\$ 700,000</u>
Cash received: taxes	<u>\$ 23,000</u>	<u>\$ 5,000</u>
Cash paid: interest	<u>\$ 262,000</u>	<u>\$ 126,000</u>
Cash paid: taxes	<u>\$ 32,000</u>	<u>\$ 51,000</u>
Cash paid: related party for taxes	<u>\$ 650,000</u>	<u>\$ 3,945,000</u>



**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

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## **Independent Accountants' Report on Applying Agreed-Upon Procedures Related to an Entity's SIPC Assessment Reconciliation**

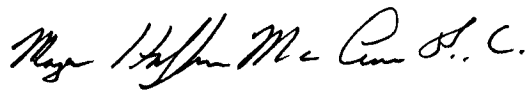
To the Board of Directors of Northland Securities, Inc.  
45 S. 7<sup>th</sup> Street, Suite 2000  
Minneapolis, MN 55402

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments Reconciliation (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2012, which were agreed to by Northland Securities, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority Inc. and SIPC, solely to assist you and the other specified parties in evaluating Northland Securities, Inc.'s compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Northland Securities Inc.'s management is responsible for the Northland Securities Inc. compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2012, with the amounts reported in Form SIPC-7 for the year ended December 31, 2012, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. We noted no overpayment applied to the current assessment of Form SPIC-7.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Ryan Hoffman McQueen S.C." in a cursive script.

Minneapolis, Minnesota  
February 27, 2013

**NORTHLAND SECURITIES, INC.**

**SCHEDULE OF PAYMENTS TO THE SECURITIES INVESTOR PROTECTION  
CORPORATION**

The Period January 1, 2012 to December 31, 2012

**Schedule of Assessment Payments**

General assessment			\$	92,817
Less payments made:				
	<b><u>Date Paid</u></b>	<b><u>Amount</u></b>		
	8/5/2012	\$ 43,668		(43,668)
	2/25/2013	\$ 49,149		(49,149)
Interest on late payment(s)				<u>-</u>
Total assessment balance and interest due			\$	<u><u>-</u></u>



**NORTHLAND SECURITIES, INC.**

**SCHEDULE OF SECURITIES INVESTOR PROTECTION CORPORATION  
ASSESSMENTS**

The Period January 1, 2012 to December 31, 2012

**Schedule of SIPC Assessment Revenues**

Revenues	\$	40,276,787
Additions		418,595
Deductions		(3,568,409)
SIPC net operating revenues	\$	<u>37,126,973</u>
General assessment @ .0025	\$	<u>92,817</u>

**SIPC-7**

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300

**General Assessment Reconciliation****SIPC-7**

(33-REV 7/10)

For the fiscal year ended 12/31/2012

(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

048994 FINRA DEC  
NORTHLAND SECURITIES INC 16\*16  
45 S 7TH ST 20TH FL  
MINNEAPOLIS MN 55402-1614

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Tim Duffy 612 851 4915

2. A. General Assessment (item 2e from page 2) \$ 92,817
- B. Less payment made with SIPC-6 filed (exclude interest) 43,668
- 8-15-12  
Date Paid
- C. Less prior overpayment applied -
- D. Assessment balance due or (overpayment) 49,149
- E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum -
- F. Total assessment balance and interest due (or overpayment carried forward) \$ 49,149
- G. PAID WITH THIS FORM:  
Check enclosed, payable to SIPC  
Total (must be same as F above) wire transfer \$ 49,149
- H. Overpayment carried forward \$( - )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Northland Securities, Inc.

(Name of Corporation, Partnership or other organization)

Timothy J. Duffy

(Authorized Signature)

CFO

(Title)

Dated the 25 day of February, 2013.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates:

Postmarked

Received

Reviewed

Calculations

Documentation

Forward Copy

Exceptions:

Disposition of exceptions:

Amounts for the fiscal period  
beginning 1/1/2012  
and ending 12/31/2012

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 40,276,787

(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.

(2) Net loss from principal transactions in securities in trading accounts.

(3) Net loss from principal transactions in commodities in trading accounts.

(4) Interest and dividend expense deducted in determining item 2a.

(5) Net loss from management of or participation in the underwriting or distribution of securities

(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.

(7) Net loss from securities in investment accounts.

Total additions

418,595

718,595

(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.

2,389,503

(2) Revenues from commodity transactions.

(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.

810.064

(4) Reimbursements for postage in connection with proxy solicitation.

(5) Net gain from securities in investment accounts.

40,412

(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.

(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).

(8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C):

### Affiliate management fees

(Deductions in excess of \$100,000 require documentation)

66,000

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. \$ \_\_\_\_\_

\$ 262,430

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ 9283

Enter the greater of line (i) or (ii)

Total deductions

262,430

3,568,409

#### 2d. SIPC Net Operating Revenues

\$ 37,126,973

2e. General Assessment @ .0025

\$ 92,817

(to page 1, line 2.A)